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NSC BRIEFING

31 July 1960

TAPLINE

- I. Fast-approaching crisis in relations between UAR government and Trans-Arabian Pipeline Company (TAPLINE) likely to lead to unilateral UAR action to close down the pipeline.
- II. Crucial new round of negotiations between TAPLINE's president and Syrian economic officials due to begin in Damascus on 1 or 2 August.
 - A. Door to compromise not yet completely closed, but if these negotiations are not more successful than earlier rounds, UAR expected to begin threatened steps to force the company to cease operations.
 - B. Company determined to keep operating at about half of capacity--its present level--unless forced to shut down. *Total capacity 450,000 bbl/day*
- III. Dispute involves two separate issues which have been lumped together by UAR government.
 - A. More important disagreement concerns UAR demand for new formula for oil transit payments which would yield Syrian government at least 2.46 cents per barrel of oil moving through pipeline, about two and one-half times present rate.
 1. Acceptance of the formula would compel company to operate at loss since it would then have to increase payments to Lebanon, Jordan, Saudi Arabia, as well as Syria.
 2. UAR has threatened a tax decree to extract from the company an amount equivalent to the new formula; TAPLINE's certain refusal to pay would provide legal grounds for enforcing shut-down of operations in Syria.

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3. UAR has adamantly rejected two TAPLINE counter-proposals which would have greatly increased Syrian revenues.

B. Second disagreement, which has brought matters to a head, is over Syrian request that TAPLINE continue to supply on credit half the crude oil requirements of Syria's government-owned refinery.

1. Syria now owes nearly \$4,000,000 under this arrangement.

2. In July, TAPLINE advised Syrian government that it would extend payment of present debt but that shipments would be suspended after 3 August unless Syria could arrange current payment for future deliveries.

IV. Nasir may be particularly eager at this time to make a dramatic move against TAPLINE in effort to create popular "anti-imperialist" propaganda issue in Syria.

A. TAPLINE shutdown would result in temporary economic gains for UAR, since most of displaced Saudi oil would then have to move through Suez Canal.

1. Increased UAR revenue from canal dues would be nearly ten times present yield from TAPLINE transit payments ^{to Syria} and about four times the yield under the new formula demanded by the UAR.

B. Nasir might not be unhappy to see Jordan and Saudi Arabia suffer some economic loss.